
Accounting & Auditing Alert

FY 2004-2005

Michigan Department of Education

DUE DATE

The financial, pupil membership, and single audits are due to the department by **November 15, 2005**. State School Aid cannot be released to districts with delinquent audits.

SELECT CHANGES IN THE MICHIGAN SCHOOL AUDITING MANUAL

New Compliance Supplement – Reading First Grant Program (CFDA 84.357)

Compliance Supplement Updates – Please pay close attention to the Title I, Special Education Cluster, Title IV - 21st Century Schools, and Medicaid supplements.

It should be noted that the compliance supplements provided in the manual are not all inclusive; the OMB Compliance Supplement (revised annually) should be consulted for full program requirements. Watch for changes in the Federal A-133 Compliance Supplements, as they are issued after the Michigan School Auditing Manual.

We have added cash management requirements to all of the compliance supplements.

The manual includes a new form for the Title I allocation process. If a child lives within a school district but goes to a non-public school out of his or her resident district, the out of the district non-public school is entitled to the child's share of funding.

The Title I poverty threshold for schoolwide programs has been increased to 40%.

Refer to the "Benefits to Private School Students and Teachers - Programs in the NCLB Act Requiring Equitable Participation," link on the MDE, Office of Audits webpage. It lists the federal grants that require equitable participation. The programs are: Title I, Part A; Title I, Part B – Reading First; Title I, Part B – Even Start; Title I, Part C – Migrant Education; Title II, Part A – Teacher and Principal Training and Recruiting; Title II, Part B – Mathematics and Science Partnerships; Title II, Part D – Enhancing Education Through Technology; Title III, Part A – English Language Acquisition; Title IV, Part B – 21st Century Community Learning Centers; Title V, Part A – Innovative Programs; and Title V, Part D – Gifted and Talented.

Note: For Title I, Part B – Reading First, a LEA must consult with private school representatives before applying for the grant; however, there is no requirement for annual consultation during the course of the subgrant. At the end of the designated grant period (three years in Michigan), the LEA must consult again with private school representatives if it intends to apply for a new subgrant.

The manual includes a letter from the Office of Special Education and Early Intervention Services with a copy of the Maintenance of Fiscal Effort Worksheet.

ELECTRONIC FILING OF 2005 SCHOOL DISTRICT FINANCIAL DOCUMENTS

In 2004, MDE piloted a process for allowing school districts, public school academies, and intermediate school districts to submit their audits electronically. MDE will continue the process for 2005 with minimal changes. Electronic submission is not mandatory. The key is to send one e-mail per district, make sure that the attachments are in PDF format, are named properly (61080FS, for example), and are complete, final, signed versions. MDE will return a standard system generated reply when it receives the e-mail at the MDE-FinAudit@michigan.gov address. The reply will confirm that you have sent a message to the correct address, but the system will not allow for successive replies. If you send more than one e-mail to the address in one day, you will not receive another standard reply. You can find the original letter detailing the requirements at: http://www.mi.gov/documents/sdelectronicfile2004_94200_7.pdf.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

The MDE requires the MD&A for all school districts, regardless of Michigan Department of Treasury requirements.

FIVE MOST COMMON MANAGEMENT LETTER ISSUES IN 2004

1. Excess of expenditures over appropriations
2. Segregation of duties
3. General ledger posting/recording journal entries
4. Cash management
5. Federal program time certifications

MEDICAID

The June 30, 2004 SAS-70 Report for Public Consulting Group (PCG) is located on the Office of Audits webpage. (The report covers the Medicaid eligibility rate computation, time study compilation, cost data compilation, claim process and calculation, records storage and retention, and physical and logical security of Public Consulting Group Michigan Administrative Outreach Program.) http://www.mi.gov/mde/0,1607,7-140-6530_6564_9091---,00.html

The first year of the time study is complete. The state is in the process of completing and submitting the December 2004 claim. When the Center for Medicare and Medicaid Services (CMS) receives the December 2004 claim, it will back cast the time study results to January 1, 2000. The state previously set up a contingency fund in case the new time study results came in lower than 30% of the original time study results (settlement amount) for the period January 1, 2000 – January 1, 2004. It was hoped that this would be sufficient for the state to refund any excess federal claims. Preliminary time study results are coming in lower than 30% of the original time study results but it is too soon to tell whether the contingency fund is adequate. When asked about the timing of this, the federal auditor indicated that it is too soon to tell but her report is due September 2005 so it will be completed before then.

The state has asked for and CMS has approved the recalculation of the Medicaid eligibility rate methodology back to January 2004. The state is reviewing the indirect cost rate maximum of 15% and may submit a proposal to change that. The state is now being paid on current time study results.

NATIONAL SCHOOL LUNCH/BREAKFAST AUDIT FINDINGS WITH QUESTIONED COSTS

For National School Lunch/Breakfast audit findings with questioned costs, please be sure that the correct reimbursement rate is used when calculating the questioned costs. For the 2005 meal reimbursement rates, please refer to the School Year 2004-05 Administrative Policy #1, located at: http://www.mi.gov/mde/0,1607,7-140-6530_6569-19613--,00.html . If you have questions on reimbursement rates or the calculation of questioned costs, please contact Pam Miller, Department Specialist, at (517) 373-1074.

USDA ENTITLEMENT & BONUS COMMODITIES

The amount of the entitlement and bonus commodities included on the districts' Recipient Entitlement Balance Report (PAL Report) is the market value of the food given to the districts. Use this value when calculating federal revenue and preparing the districts' Schedule of Expenditures of Federal Awards (SEFA).

The Recipient Entitlement Balance Report (PAL Report) does not affect how the food cost for commodities is calculated for the Food and Nutrition Year End Cost Report. The actual cost of commodities (processing and delivery) is still used to calculate this food cost for the Year End Report. The market value of commodities must never be used when calculating the cost of commodities for the Year End Report. The accrual method should be used to determine the cost: beginning inventory + purchases – ending inventory = food cost.

For further guidance on this topic, please refer to Food Service Administrative Policy No. 6, School Year 2002-2003, dated January 10, 2003, and Food Service Administrative Policy No. 7, School Year 2002-2003, dated April 25, 2003 at: http://www.mi.gov/mde/0,1607,7-140-6530_6569-19613--,00.html .

GRANTS SECTION AUDITORS REPORT (R-7120)

The R-7120 report will continue to be available on MDE's website at www.michigan.gov/mdeaudit ; click on Grants Section Auditors Report (R-7120). The ISDs are asked to distribute copies of the R-7120 to each of their local districts. The R-7120 includes all federal grant payments made by MDE to the districts. It may also include a limited number of state funded grants such as state funded school lunch payments and drivers education grants. If an award is listed with a Catalog of Federal Domestic Assistance (CFDA) number beginning with 99, then the grant is state funded and should not be reported as federal revenue and should not be included on the district's Schedule of Expenditures of Federal Awards (SEFA).

IDENTIFYING AND REPORTING RELATED PARTY TRANSACTIONS

It is important that schools properly document related party transactions (RPT) in the footnotes to the financial statements. Footnotes should comply with FAS-57, which addresses reporting requirements. Footnotes should include enough details to adequately describe the situation. Examples are: borrowing and lending; sale or lease of real estate, buildings, and equipment; and management agreements. The interpretation of SAS-45 states that the auditor should apply sufficient audit procedures to provide reasonable assurance that related party transactions are adequately disclosed in the financial statements and are not materially misstated. The department has discovered many related party transactions that were not disclosed in the footnotes. The department is focusing on this when doing QCRs.

NEW REPORT LETTERS

Standard report letters have been revised slightly. You may refer to the following AICPA website for examples: <http://www.aicpa.org/belt/a133full.htm> .

REVISED CONTINUING PROFESSIONAL EDUCATION (CPE) GUIDANCE

The Government Auditing Standards (GAS) draft standards call for the 80 hours of CPE that auditors must complete every two years to "directly enhance the auditor's professional proficiency to perform audits and/or attestation engagements." The prior guidance called for training that "contributes to the auditor's professional proficiency." The draft is also intended to clarify that CPE programs should have learning objectives; specify that for certification review courses, only the segments related to auditing, attestation, the government environment or the specific environment of the audited entity will count; allow CPE for participation as a member of a professional committee or task force of an accounting or auditing standard-setting organization; allow preparation time for a group CPE program to be counted in certain instances; update various criteria for CPE programs, where appropriate, to be consistent with National Association of State Boards of Accountancy standards; allow credit for half-hours; offer audit organizations the flexibility to delegate responsibility for certain documentation to employees; specify certain circumstances such as natural disasters and extended family leave under which an audit organization can grant exceptions to the CPE requirements; specify that auditors are responsible for determining CPE requirements of other entities to which they report their CPE; change the method for calculating "pro rata" hours for the two-year period to cover unusual circumstances; and specify that auditors are responsible for maintaining evidence of their attendance or completion of external CPE programs.

FEDERAL COMPLIANCE SUPPLEMENT CHANGES TIME & EFFORT REPORTING FOR CERTAIN ED PROGRAMS

The 2004 OMB Circular A-133 Compliance Supplement contains substantial new information on what records must be kept to document employees' time when they are working on a Title I schoolwide program or consolidated administration. Under OMB Circular A-87, an employee who spends 100 percent of his or her time working in a single cost objective is required to keep semiannual certifications attesting to this fact. Employees working on multiple cost objectives must maintain monthly time reports. ED has determined that consolidated administration is a single cost objective, and therefore, semiannual certifications must be maintained if an employee works solely on consolidated administration. For schoolwide programs, however, ED's interpretation has been inconsistent among various offices. The supplement explains that if an employee spends 100 percent of his or her time working in a schoolwide program, the position may be treated as a "dedicated function." In this case, the employee paid in full with funds combined through a schoolwide program may meet the semiannual certification requirement through a specific code in the payroll system. The new option applies to consolidated administration as well.

The Michigan School Auditing Manual is available on our website at: www.michigan.gov/mdeaudit . Questions about Single Audits or the Michigan School Auditing Manual can be directed to Roxanne Nicholas at (517) 373-4591, or e-mail: nicholasrr@michigan.gov .

2004-2005 COMPREHENSIVE ANNUAL FINANCIAL REPORT (FORMERLY FORM B)

Due Date:

The 2004-05 comprehensive annual financial data will be collected electronically via the FID (Financial Information Database) and is due November 15, 2005. Sections 18(3) and 18(8) of the State School Aid Act set the legal mandate for this reporting and require MDE to withhold State School Aid payments for non-compliance.

Changes:

The FID will continue to be the **only** submission option for fiscal year 2004-05 financial data. The Center for Educational Performance and Information (CEPI) is the entity responsible for collecting the data from districts. MDE will maintain responsibility for monitoring proper accounting and reporting by the districts. Instructions are available from CEPI. The website address is www.michigan.gov/CEPI , then choose MEIS Data Services, then FID.

Reminders:

Supplemental Schedule – Districts that purchase services in an amount equal to or greater than 50% of their general fund current operating expenditures as reported on the 2004-2005 FID must complete a Supplemental Schedule of Purchased Services. The schedule will collect expenditure detail for services that are purchased from educational service providers.

Deficit Fund Balance - A district reporting a general fund deficit (negative fund balance before reserves) must notify the Michigan Department of Education as soon as the deficit is confirmed and should not wait until the FID report is filed. Section 102 of the State School Aid Act discusses deficit districts. The notification should be in written form and mailed to: Glenda Rader, State Aid and School Finance, PO Box 30008, Lansing, MI 48909.

State School Aid Revenue Recognition - State School Aid unrestricted revenue reported on the 2004-2005 financial data submission should reflect amounts shown on the district's August 2005 State School Aid Status Report. Care should be taken to record the revenues in the appropriate funds and categories as discussed in the *Michigan Public School Accounting Manual Appendix*. Account numbers for State Aid may be found on our website at http://www.mi.gov/mde/0,1607,7-140-6530_6605-21356--,00.html .

Transfer of Funds Between School Districts – There are three separate major class codes used to record pass-through funds received from another Michigan public school district. Local pass-through funds (Act 18, tuition, transportation, etc.) should be reported in Revenues, major class codes 511-519. State pass-through revenues (state aid categoricals, etc.) should be reported in major class codes 317-318. Federal pass-through revenues (IDEA, Title I, etc.) should be reported in major class codes 417-418. Discussions with the MSBO ISD Finance Committee may result in further written guidance related to transfers between districts.

USDA Commodities and Bonus Commodities – These commodities must be recorded as revenue in major class codes 481-482, as well as in the financial statements. The same revenue/expenditure amounts should be reported on all financial reports transmitted to MDE. (Deferred Revenue reported in SEFA should mirror the year-end commodity inventory.)

Medicaid Funds – The medical services or “fee-for-service” component of the Medicaid School Based Services program is not subject to the Single Audit Act of 1996. The “fee-for-service” component should be recorded as local source revenue by the district; the appropriate major class code is “181” or “519” if received through another public school. The Transportation and Medicaid Administrative Outreach components are subject to the Single Audit Act and should be recorded as federal revenues by the district; the appropriate major class code is either “412” or “418” depending on how the funds are received by the district. (See the Medicaid compliance supplement in the *Michigan School Auditing Manual* for further information.)

FEMA/Public Assistance Grant Program Revenues -The FEMA Snow Removal Grants (passed through the Michigan State Police) are subject to single audit. These grants fall under CFDA number 83.544 Public Assistance Grants. If you need more information on the grants, please contact the Emergency Management Division of the Michigan State Police. For FID reporting, these funds should be categorized as federal revenues passed through a State agency.

Average Teacher Salary - Average teacher salary will be calculated by dividing the total dollar amount from functions 111-113 and object 1240 reported in the FID by the full-time equivalency reported in those same functions from the 2004-2005 REP. Please coordinate the reporting to assure reasonable average teacher salary computations.

Special Education Expenditures – FID expenditures for special education instruction (function 122) should be equal to or greater than the amounts reported on the SE4096, Allowable Special Education Cost Report. The comparison is done by object code category.

Debt Retirement Funds - The Uniform Budgeting and Accounting Act (MCL 141.422a) no longer requires districts to adopt a budget for debt retirement funds.

USF – Universal Service Funds – For non-material amounts, the districts should record the amounts as discounts. The district will only be billed for its share of service costs. The discount is separately billed to the USF. For material amounts, the districts should consider reporting the discount as revenue (major class code 192). These are not considered federal revenues. Amounts received in the current year for expenditures incurred in a prior year should be reported as local revenue (major class code 192).

Deferred Revenue – Any restricted federal/state grant funds (i.e., At Risk, Adult Education, Title I, Title V...) remaining unspent at year-end should be recorded in the financial statements as deferred revenue (major class 471) rather than as a reserve of fund balance (major class 71x). This does not apply to funds that are awarded without restriction as to use. The logic is that restricted funds aren't earned until they are used for the restricted grant purpose. If the funds aren't used for the grant purpose in a subsequent year, they are due back to the grantor.

Copies of the Michigan Public School Accounting Manual can be found on the Michigan Department of Education's website at: www.michigan.gov/mde under Keywords, Michigan Public School Accounting Manual. Questions regarding accounting issues may be addressed to Glenda Rader. Email: raderg@michigan.gov or phone: 517-335-0524.